

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 TRSE-00 PM-03 SP-02
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R 171154Z FEB 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 5703

C O N F I D E N T I A L SECTION 01 OF 02 BONN 02941

LIMDIS

DEPARTMENT PASS TREASURY

E.O. 11652: GDS
TAGS: EGEN, GW
SUBJ: STATE SECRETARY POEHL ON GERMAN/AMERICAN
ECONOMIC DIALOGUE

1. SUMMARY: DURING MY CONVERSATION WITH STATE SECRETARY POEHL OF THE FINANCE MINISTRY ON FEB. 15, HE EXPRESSED HIMSELF AS SENSITIVE TO PUBLIC ADVICE FROM THE OTHER SIDE OF THE ATLANTIC ON FRG ECONOMIC POLICY. HE ALSO REFERRED TO THE DIFFICULTY OF DECIDING WHAT TO DO IN THE FACE OF RELATIVE GERMAN PROSPERITY AND THE IMPORTANT ROLE OF THE BUNDESBANK IN POLICY FORMULATION. HE TENDED TO DOWNPLAY THE LIKELY EFFECT OF THE NEW GOVERNMENT INVESTMENT PROGRAM, BUT STRESSED THE CONGRUITY WITH U.S. INTERESTS AND OBJECTIVES AND THE NEED FOR CLOSE COOPERATION AND CONSULTATION. END SUMMARY.

2. DURING A CALL ON STATE SECRETARY POEHL IN THE FINANCE MINISTRY ON FEB. 15, POEHL EXPRESSED SOME CONCERN OVER DIFFERENCES OF OPINION ON THE PROPER
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DIRECTION FOR GERMAN ECONOMIC POLICY WHICH HAS DEVELOPED IN THE PUBLIC MEDIA. HE THOUGHT IT WAS IMPORTANT THAT WASHINGTON UNDERSTAND GERMAN THINKING AND WAS, THEREFORE, CONSIDERING A VISIT TO WASHINGTON IN THE NEAR FUTURE. POEHL STRESSED THAT CONSULTATIONS BETWEEN FRG OFFICIALS AND AMERICAN OFFICIALS WERE ESSENTIAL AND MOST HELPFUL. AMERICAN VIEWS COULD

THUS BE TAKEN INTO ACCOUNT. HE STRESSED THAT THE TWO OF US, AFTER ALL, SHARE EXACTLY THE SAME INTERESTS AND OBJECTIVES AND, ALONG WITH JAPAN, WERE NORMALLY THE TARGETS OF THE REST OF THE WORLD. ON THE OTHER HAND, HE CITED AS UNHELPFUL RECENT SUGGESTIONS OF PROF. LAWRENCE KLEIN (ALSO CITED PUBLICLY IN BRUSSELS BY HIS MINISTER) ON THE HILL, FAVORING A REVALUATION OF THE DOLLAR, THE MARK, AND THE YEN. HE THOUGHT IT RIDICULOUS TO BE SUPPORTING THE POUND STERLING, KEEP IT FROM DEVALUATING FURTHER, AND THEN ADVOCATING A FURTHER DEVALUATION OF THE POUND VIS-A-VIS OTHER CURRENCIES. I REMINDED POEHL THAT GERMAN PUBLIC MEDIA HAD MISUNDERSTOOD WHAT THE U.S. HAVE IN MIND. WE WERE NOT SPEAKING OF A MASSIVE INFLATIONARY POLICY FOR THE FRG, BUT A REASONABLE AND MODEST DEGREE OF EXPANSION. POEHL AGREED THAT THIS WAS GOOD ADVICE AND HAD BEEN VERY WELL PRESENTED BY VICE PRESIDENT MONDALE AND HIS PARTY WHEN THEY WERE HERE.

3. THE PROBLEM, POEHL SAID, IS HOW TO DO THIS. THE BUNDESBANK WAS EXCEEDINGLY CONSERVATIVE AND OPPOSED FURTHER EXPANSION. PEOPLE FROM THE BUNDESBANK, FOR EXAMPLE, HAD BEEN SHOCKED IN BRUSSELS AT THE RECENT MEETING OF THE MINI-SNAKE COUNTRIES, WHEN THEY WERE TAKEN TO TASK BY THEIR BRITISH AND FRENCH COLLEAGUES, WHO GLEEFULLY SAID THAT THE U.S. HAD NOW JOINED THEM IN EXERTING PRESSURE ON THE FRG. UNFORTUNATELY, THE BUNDESBANK IN GERMANY ENJOYED CONSIDERABLE RESPECT AMONG THE GENERAL POPULACE AS BEING CONFIDENTIAL

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RESPONSIBLE, WHILE GOVERNMENT OFFICIALS ARE REPUTED TO DEVOTE THEIR TIME THROWING TAXPAYERS' MONEY AWAY. HE ALSO REFERRED TO THE CHANCELLOR'S HIGH REGARD FOR THE ADVICE OF BUNDESBANK PRESIDENT KLASSEN.

4. HE WOULD LIKE TO SEE REDUCTION IN THE FRG'S TRADE SURPLUS. HE SAID WE SHOULD NOT EXAGGERATE THE LIKELY IMPACT OF THE GOVERNMENT ON INVESTMENT PROGRAMS. IT WILL TAKE TIME FOR IT TO HAVE ITS EFFECT, AND INsofar AS LOCALITIES WERE CONCERNED, IT WOULD BE UNDERTAKEN AT THAT MOMENT WHEN THE LOCALITIES WERE SEEKING TO REDUCE THEIR OWN DEFICITS.

5. POEHL PERSONALLY WOULD HAVE PREFERRED AN EXPANSION OF THE FRG ECONOMY THROUGH DEFICIT EXPENDITURE ON ONGOING GOVERNMENT PROGRAMS. THIS APPROACH WAS, HOWEVER, ANATHEMA TO HIS OWN MINISTER, AND INDEED

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 02941

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THE CHANCELLOR, WHO ARE BOTH DISTRESSED AT THE THOUGHT OF A FURTHER INCREASE OF THE FEDERAL BUDGET. HE THOUGHT THAT MORE IMPORTANT WAS THE BUSINESS ATTITUDE. ALTHOUGH WAGE NEGOTIATIONS WOULD BRING ABOUT A SOMEWHAT LARGER INCREASE THAN MIGHT HAVE BEEN DESIRABLE, THE OUTLOOK IS FAIRLY GOOD FOR CORPORATE PROFITABILITY. HE ALSO THOUGHT THAT, SHOULD UNEMPLOYMENT CONTINUE TO GROW, THE GOVERNMENT WOULD BE UNDER PRESSURE TO ESPOUSE A MORE EXPANSIVE PROGRAM. HE POINTED OUT WRONGLY THAT THE FDP MINISTER OF ECONOMICS, FRIDERICH, WAS SOMEWHAT MORE EXPANSION-MINDED -- AT LEAST AS FAR AS BUDGET DEFICITS ARE CONCERNED -- THAN HIS OWN SPD MINISTER OF FINANCE, APEL, BECAUSE OF THE LATTER'S PREOCCUPATION WITH BUDGET BALANCING.

6. HAVING SAID THIS, POEHL SAID THAT THE SITUATION IN THE FRG WAS AFTER ALL PRETTY GOOD, WHICH MADE IT HARD TO BUILD UP SENTIMENT FOR AN EXPANSION POLICY. GNP GROWTH HAD BEEN ABOUT 6 PERCENT IN REAL TERMS LAST YEAR, RELATIVE PRICE STABILITY HAD BEEN ACHIEVED, AND THEY LOOKED FORWARD TO A GROWTH OF BETWEEN 4 TO 5 PERCENT DURING 1977. IT WAS TRUE, HE SAID, THAT UNEMPLOYMENT WAS OVER 1 MILLION, BUT ALMOST HALF OF THESE WERE HOUSEWIVES AND YOUNGSTERS, THE LATTER OF
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WHOM IN MANY CASES REQUIRED TRAINING. THERE WERE ALSO
SOME UNIVERSITY STUDENTS WHO WERE UNEMPLOYED FOR SHORT
PERIODS FOLLOWING THEIR EDUCATION. THE HARD CORE OF
THE UNEMPLOYED WAS, THEREFORE, BETWEEN 400,000 -
500,000.
STOESSEL

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